Perpetual Investments

# PERPETUAL WHOLESALE DIVERSIFIED INCOME FUND

July 2022

## FUND FACTS

**Investment objective:** Aims to provide regular income and consistent returns above the Bloomberg AusBond Bank Bill Index (before fees and taxes) over rolling three-year periods by investing in a diverse range of income generating assets.

| | |
|---|---|
| **Benchmark:** | Bloomberg AusBond Bank Bill Index** |
| **Inception date:** | October 2005 |
| **Size of fund:** | $1,459.0 million as at 30 June 2022 |
| **APIR:** | PER0260AU |
| **Mgmt Fee:** | 0.59% pa* |
| **Benchmark Yield:** | 1.786% as at 31 July 2022 |

**Suggested minimum investment period** Three years or longer

## FUND BENEFITS

Provides investors with the potential for regular income, above cash returns and lower volatility than other income strategies through an actively managed, highly diversified and liquid investment.

## FUND RISKS

All investments carry risk and different strategies may carry different levels of risk. The relevant product disclosure statement or offer document for a fund should be considered before deciding whether to acquire or hold units in that fund. Your financial adviser can assist you in determining whether a fund is suited to your financial needs.

## TOTAL RETURNS % (AFTER FEES) AS AT 31 July 2022

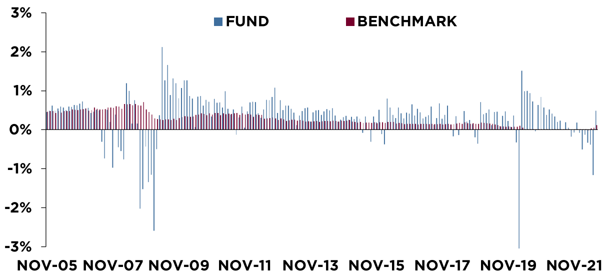
| | 1 MTH | 3 MTHS | 6 MTHS | 1 YR | 2 YRS PA | 3 YRS PA | 5 YRS PA | 7 YRS PA | INCEPT PA |
|---|---|---|---|---|---|---|---|---|---|
| Perpetual Wholesale Diversified Income Fund | 0.49 | -1.06 | -2.02 | -1.93 | 1.44 | 1.36 | 2.07 | 2.64 | 4.02 |
| Bloomberg AusBond Bank Bill Index** | 0.12 | 0.21 | 0.20 | 0.22 | 0.13 | 0.33 | 0.94 | 1.25 | 3.22 |

Please note: Performance for Perpetual's complete list of investment funds is available on www.perpetual.com.au. Past performance is not indicative of future performance.

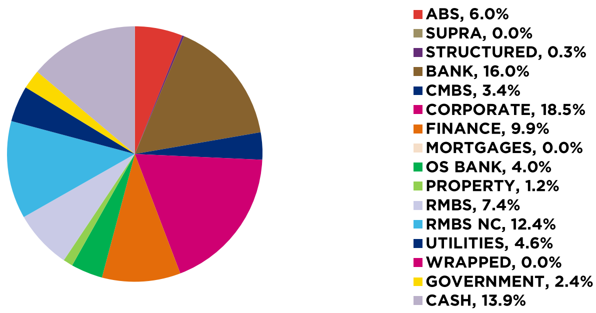
## POINTS OF INTEREST

•Financial markets rebound on moderating monetary policy expectations;
•Domestic yields fall. Yield curve flattens;
•AUD spreads widen slightly; USD and EUR spreads tighten;
•Primary issuance orderly;
•The outlook for credit remains challenged.

## MONTHLY PERFORMANCE SINCE INCEPTION




## PORTFOLIO SECTORS




## PORTFOLIO COMPOSITION

| | BREAKDOWN |
|---|---|
| Senior Debt | 60.80% |
| Subordinated Debt | 30.28% |
| Hybrid Debt | 8.92% |
| Core Component | 89.62% |
| Plus Component | 10.38% |
| % Geared | 0.00% |
| Running Yield# | 3.13% |
| Portfolio Weighted Average Life | 3.32 yrs |
| No. Securities | 156 |

* Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS.

## MARKET COMMENTARY

Financial markets rebounded during the month with equities and bond yields clawing back a portion of their first half losses. As recession risks continued to rise, markets were buoyed by the softening of monetary policy tightening expectations.

During the month, investors reacted to slowing economic growth by anticipating a deceleration of rate increases from central banks. Two successive quarters of negative GDP growth confirmed a technical recession in the US which saw financial markets rally on expectations the Fed's aggressive tightening cycle would ease. Employment data remains constructive and corporate earnings have proven thus far resilient. Forward looking indicators are less constructive, with profit guidance revised down and Purchasing Manager Indices (PMIs) indicating contraction.

Credit spread dynamics were predominantly benign during July as the expansion of credit spreads observed over recent months slowed. While AUD spreads ended the month slightly wider, USD and especially EUR spreads tightened, the latter recovering a portion of the dramatic selloff observed in June. Primary issuance was orderly during July. NAB issued $1.25B of 10-year non-call 5 tier 2 fixed and floating rate notes. In the corporate space, John Deere Financial priced a 3 year $300M deal. Swap spreads tightened slightly over the month following persistent widening over recent months.

Domestic bond yields ended the month lower after a strong rally in the last week of July. The Australian 10-year is more than 100bps down from the June peak. The Reserve Bank of Australia (RBA) has continued its aggressive tightening cycle, having increased the target cash rate by 175bps between the start of May and the 2nd of August. Inflation remains the key concern for the central Bank with trimmed mean inflation – the RBA's preferred measure – rising to 4.9% yoy during the June quarter, remaining well outside of the target range. While surging inflation will provide little comfort to the central bank, the print came in short of estimates and saw monetary tightening expectations ease as a result. At the same time, the labour market remains robust and wage growth is expected to accelerate.

## PORTFOLIO COMMENTARY

The rise in credit yield premiums and official cash rates over the first half of 2022 has improved the Fund's running yield as a result of its predominantly floating rate structure. The portfolio's running yield was 3.1% at month end with the spread measured at 2.0%.

The expansion of credit spreads observed over recent months slowed in July. While AUD spreads ended the month slightly wider, USD and especially EUR spreads tightened, the latter recovering a portion of the dramatic selloff observed in June. During June, following the dramatic selloff in EUR credit in June, The Manager elected to add a long position in the EURO crossover CDS index (which tracks European non-investment grade corporate issuers). As EUR spread recovered, the position contributed substantially to performance. The Fund's exposure to financial spreads – most notably offshore banks – also performed well, contributing to outperformance.

The Fund continues to hold and actively trade Australian government bonds, contributing to portfolio liquidity and running income, whilst further strengthening the portfolios credit quality. In recognition of tightening financial conditions and the challenging outlook for credit the Manager has allocated approximately 25% of the fund to highly liquid exposures across cash and government bonds. The funds duration exposure performed well during July, with bond yields rallying on rising recession concerns and moderating monetary policy tightening expectations.

With a challenging outlook for credit spreads and reduced liquidity in secondary markets, risk management remains paramount. The Fund maintains its defensive positioning while retaining the flexibility to take advantage of relative value opportunities presented by recent volatility. The contribution of duration and synthetic credit positions during the month demonstrate the potential benefit offered by the flexibility of the Fund's elevated cash and government bond allocation.

## OUTLOOK

The credit outlook remains challenged with a number of indicators degrading over the month.

Valuation indicators remain somewhat negative. US investment grade and high yield alongside Australian Investment grade and swap spreads remain at neutral levels relative to historical averages. The domestic credit market remains expensive relative to offshore markets across relative spread and basis swap indicators.

The growth outlook remains delicately poised with slowing economic growth and the elevated oil price offset by the robust ratio of upgrades to downgrades.

Supply and demand indicators have worsened, detracting from the overall credit outlook. Market demand remains disrupted with secondary markets seeing reduced volumes and primary deals meeting selective demand. Primary issuance volumes have been rising and are now at robust levels relative to recent trends. The upcoming maturity schedule is slightly elevated and expected to be constructive for spreads.

Technical indicators remain negative. Intermediaries continue to limit risk to their balance sheets, impacting secondary market liquidity and detracting from the outlook for spreads. US credit and equity indicators remain negative while equity volatility indicators have improved.

With a challenging outlook for spreads, risk management remains paramount. The team continues to position to defend capital while evaluating opportunities presented by the current market conditions.


** UBS Australian Bond Index changed to Bloomberg AusBond Bank Bill Index effective 26 September 2014

## MORE INFORMATION

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